

School District of the City of Battle Creek

**Financial Report
with Supplemental Information
June 30, 2008**

School District of the City of Battle Creek

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Independent Auditor's Report

To the Board of Education
School District of the City of Battle Creek

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Battle Creek (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of Battle Creek's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Battle Creek as of June 30, 2008 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education
School District of the City of Battle Creek

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Battle Creek's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 11, 2008 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

November 11, 2008

School District of the City of Battle Creek

Management's Discussion and Analysis

This section of the School District of the City of Battle Creek's (the "School District") financial report presents our discussion and analysis of the School District's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District of the City of Battle Creek financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and the 2007 Bond Building and Site Fund, with all other funds presented in one column as nonmajor funds. The remaining statements, the statement of fiduciary net assets and the statement of changes in fiduciary net assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to students, not to generate profits as a commercial entity. Many other nonfinancial factors, such as the quality of the educational programs, are used to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, capital projects, and food services. Property taxes, unrestricted state aid per pupil (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (Special Revenue Funds - the Calhoun Area Technology Center, Math and Science Center, Technology, Athletics, Food Service, and Operation Grad Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as millage funds used for capital projects). The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2008 and 2007:

TABLE I

	Governmental Activities	
	2008	2007
	(in millions)	
Assets		
Current and other assets	\$ 101.6	\$ 108.3
Capital assets	26.2	18.2
Total assets	127.8	126.5
Liabilities		
Current liabilities	12.4	11.8
Long-term liabilities	70.7	71.2
Total liabilities	83.1	83.0
Net Assets		
Invested in property and equipment - Net of related debt	21.7	17.1
Restricted	2.1	0.9
Unrestricted	20.9	25.5
Total net assets	<u>\$ 44.7</u>	<u>\$ 43.5</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$44.7 million at June 30, 2008. Capital assets, net of related debt totaling \$21.7 million, compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets, which total \$2.1 million, are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$20.9 million) was unrestricted.

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

The \$20.9 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2007-2008 and 2006-2007 for comparative purposes.

TABLE 2

	Governmental Activities	
	2008	2007
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 2.6	\$ 2.8
Operating grants	22.7	30.1
Capital grants and contributions	-	2.8
General revenue:		
Property taxes	13.7	7.5
State foundation allowance	39.5	42.7
Other	6.6	2.7
Total revenue	85.1	88.6
Functions/Program Expenses		
Instruction	42.3	47.4
Support services	31.9	31.8
Community services	1.8	1.6
Food services	2.9	2.6
Athletics	0.9	0.9
Interest on long-term debt	4.1	-
Total functions/program expenses	83.9	84.3
Increase in Net Assets	\$ 1.2	\$ 4.3

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$83.9 million. Activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$22.7 million). We paid for the remaining "public benefit" portion of our governmental activities with \$13.7 million in taxes, \$39.5 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements. The School District experienced an increase in net assets of \$1.2 million. The increase was attributable to new investment and tax revenues associated with the current construction project resulting from the 2007 bond issue passed by the voters of the City of Battle Creek. This allowed the School District to begin renovation and construction on three separate projects over the next few years. The balance of asset appreciation was attributable to a district-wide effort to update and maintain our facilities to the maximum of our funding capability.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Examining the various funds helps the reader consider whether the School District is being accountable for the resources provided to it while furnishing more insight into the School District's overall financial health.

As the School District completed this year, excluding the new 2007 Bond Building and Site Fund, the governmental funds reported a combined fund balance of \$26.1 million, which is a decrease of \$3.4 million from last year. This decrease was primarily attributable to a combination of the General Fund usage of \$2.0 million, and the disbursement of the Calhoun Area Tech Fund fund balance to the Calhoun Intermediate School District in the amount of \$2.4 million.

In the General Fund, our principal operating fund, the fund balance decreased approximately \$2 million.

Some of the significant events that impacted the financial results are as follows:

- An additional decrease of 111 blended full-time equated students, compared to initial projections, resulted in a reduction of \$0.8 million in state foundation revenue.
- Additional increases in fuel costs resulted in utility as well as transportation increases equating to \$0.1 million.
- As a result of the new graduation requirements, the School District exceeded original projections for textbook purchases by \$0.4 million.
- The School District offered an early retirement incentive to facilitate reducing the level of the General Fund budget resulting in an additional expense of \$0.25 million.

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds, excluding the Calhoun Area Tech Fund, decreased from the prior years, showing a net decrease of approximately \$0.2 million. Capital Projects Funds, excluding the new 2007 Bond Building and Site Fund, reported an increase in fund balance of \$0.8 million. This increase in funds was due to the effort to build the reserve for upcoming projects over the next two to three years to incorporate a planned effort to update facilities.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information section of these financial statements.

There were revisions made to the 2007-2008 General Fund original budgets. Budgeted revenues were increased \$2.6 million due to increases in federal, state, and local funding offset against decreases in enrollment. Budgeted expenditures were increased partially as a result of the increased offsetting state and federal grant revenues.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the School District had \$47.7 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment as well as construction in progress, which was an increase of 20 percent compared to 2007.

	2008	2007
Land	\$ 2,846,722	\$ 1,004,558
Construction in progress	4,690,510	107,786
Buildings and building improvements	28,073,724	27,333,035
Buses and other vehicles	4,981,456	4,835,021
Furniture and equipment	7,097,659	6,411,620
Total capital assets	<u>\$ 47,690,071</u>	<u>\$ 39,692,020</u>

We present more detailed information about our capital assets in the notes to the financial statements.

Upcoming years will show a significant increase in capital assets due to the recent bond passage allowing for capital projects in excess of \$68 million over the next four years.

School District of the City of Battle Creek

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$67.5 million in bonds outstanding, which is \$1.2 million less than the previous year. Those bonds consisted of the following:

	2008	2007
2007 Bond Building and Site	\$ 66,505,000	\$ 67,705,000
Durant bonds	1,009,275	1,009,275
Total bonded debt	<u>\$ 67,514,275</u>	<u>\$ 68,714,275</u>

One of the School District's funds is a Debt Fund related to the Durant Non-Plaintiff bonds. These bonds are funded by annual state appropriation and no fund balance exists at year end.

The \$66.5 million remaining of bonded debt resulted from a 3.95 mill debt levy being passed by the voters on May 8, 2007. The millage was passed to allow for the renovation of the School District's Central High School, Valleyview Elementary, and expanded the consolidated sports complex location. The initial bond was expected to be \$68.9 million. However, due to a combination of an excellent credit rating and insurance, the School District was able to obtain funding at a reduced level for the project.

Other obligations include accrued sick leave and self-insurance liabilities. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended full-time equated student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is expected to be 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2008-2009 budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 63 percent of total budgeted General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations. The School District makes these adjustments and adopts the amendments at the annual November board meeting.

Since the School District's revenue is heavily dependent on state aid, the revenue received in the State Aid Fund is directly related to the State's effectiveness at collecting taxes for the purpose of funding education.

School District of the City of Battle Creek

Statement of Net Assets June 30, 2008

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 20,055,767
Receivables - Net (Note 4)	13,059,320
Inventories	1,040,422
Prepaid costs	316,631
Restricted assets	67,193,480
Capital assets - Net (Note 5)	26,163,472
Total assets	127,829,092
Liabilities	
Accounts payable	2,876,422
Accrued payroll and other liabilities	6,559,926
Deferred revenue (Note 4)	1,271,477
Long-term liabilities (Note 8):	
Due within one year	1,758,599
Due in more than one year	70,692,606
Total liabilities	83,159,030
Net Assets	
Investment in capital assets - Net of related debt	21,701,484
Restricted:	
Debt service	357,780
Capital projects	1,753,456
Unrestricted	20,857,342
Total net assets	<u><u>\$ 44,670,062</u></u>

School District of the City of Battle Creek

Statement of Activities Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:					
Instruction	\$ 42,311,530	\$ 402,455	\$ 14,382,162	\$ -	\$ (27,526,913)
Support services	31,943,243	1,450,846	4,724,688	-	(25,767,709)
Food services	2,856,920	594,649	2,229,434	-	(32,837)
Athletics	878,408	97,995	-	-	(780,413)
Community services	1,797,671	-	1,389,037	-	(408,634)
Interest on long-term debt	4,156,367	-	-	-	(4,156,367)
Total governmental activities	<u>\$ 83,944,139</u>	<u>\$ 2,545,945</u>	<u>\$ 22,725,321</u>	<u>\$ -</u>	(58,672,873)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					7,163,114
Property taxes, levied for debt service					4,288,650
Property taxes, levied for capital projects					2,193,615
State aid not restricted to specific purposes					39,533,698
Interest and investment earnings					5,281,229
Other					<u>1,350,167</u>
Total general revenues					<u>59,810,473</u>
Change in Net Assets					1,137,600
Net Assets - Beginning of year					<u>43,532,462</u>
Net Assets - End of year					<u><u>\$ 44,670,062</u></u>

School District of the City of Battle Creek

Governmental Funds Balance Sheet June 30, 2008

	General Fund	2007 Bond Building and Site	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 19,217,205	\$ -	\$ 838,562	\$ 20,055,767
Receivables - Net (Note 4)	460,971	-	426,625	887,596
Due from other governmental units (Note 4)	11,987,933	-	-	11,987,933
Due from other funds (Note 6)	-	3,605	3,482,448	3,486,053
Inventories	207,265	-	833,157	1,040,422
Prepaid costs	61,303	-	255,328	316,631
Restricted assets	-	67,193,480	-	67,193,480
Total assets	<u>\$ 31,934,677</u>	<u>\$ 67,197,085</u>	<u>\$ 5,836,120</u>	<u>\$ 104,967,882</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 967,651	\$ 1,683,636	\$ 225,135	\$ 2,876,422
Accrued payroll and other liabilities	5,619,566	-	308,449	5,928,015
Due to other funds (Note 6)	3,287,625	-	14,637	3,302,262
Deferred revenue (Note 4)	808,722	-	462,755	1,271,477
Total liabilities	10,683,564	1,683,636	1,010,976	13,378,176
Fund Balances				
Reserved:				
Inventories	207,265	-	828,786	1,036,051
Prepays	61,303	-	255,328	316,631
Debt service	-	-	357,780	357,780
Committed CATC funds	-	-	125,000	125,000
Capital projects	-	65,513,449	1,753,456	67,266,905
Unreserved - Undesignated, reported in:				
General Fund	20,982,545	-	-	20,982,545
Special Revenue Funds	-	-	1,504,794	1,504,794
Total fund balances	<u>21,251,113</u>	<u>65,513,449</u>	<u>4,825,144</u>	<u>91,589,706</u>
Total liabilities and fund balances	<u>\$ 31,934,677</u>	<u>\$ 67,197,085</u>	<u>\$ 5,836,120</u>	<u>\$ 104,967,882</u>

School District of the City of Battle Creek

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

Fund Balance - Total Governmental Funds \$ 91,589,706

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds:

Cost of capital assets	\$ 47,690,071	
Accumulated depreciation	<u>(21,526,599)</u>	26,163,472

Long-term liabilities are not due and payable in the current
period and are not reported in the governmental funds:

Bonds payable, including unamortized premium	(68,496,409)
Arbitrage liability	(847,117)
Self-insurance	(440,770)
Compensated absences	(2,666,909)

Accrued interest payable is not included as a liability in
governmental funds

(631,911)

Net Assets - Governmental Activities \$ 44,670,062

School District of the City of Battle Creek

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	2007 Bond Building and Site	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 8,899,512	\$ 4,479,080	\$ 9,190,248	\$ 22,568,840
State sources	45,501,376	-	3,048,887	48,550,263
Federal sources	7,728,314	-	2,135,332	9,863,646
Interdistrict and other sources	3,869,838	-	-	3,869,838
Total revenue	65,999,040	4,479,080	14,374,467	84,852,587
Expenditures				
Current:				
Instruction	39,566,487	-	1,828,411	41,394,898
Support services	25,395,063	-	3,657,860	29,052,923
Community services	265,298	-	-	265,298
Food service	-	-	2,834,579	2,834,579
Athletics	-	-	824,008	824,008
Debt principal	-	-	1,200,000	1,200,000
Debt interest	-	-	2,765,253	2,765,253
Capital outlay	171,589	7,559,096	1,868,285	9,598,970
Intergovernmental transfers	1,290,199	-	2,431,604	3,721,803
Interfund reimbursement	(151,865)	-	151,865	-
Total expenditures	66,536,771	7,559,096	17,561,865	91,657,732
Excess of Expenditures Over Revenue	(537,731)	(3,080,016)	(3,187,398)	(6,805,145)
Other Financing Sources (Uses)				
Transfers in	-	-	1,550,058	1,550,058
Transfers out	(1,550,058)	-	-	(1,550,058)
Proceeds from sale of capital assets	118,950	-	148,527	267,477
Total other financing sources (uses)	(1,431,108)	-	1,698,585	267,477
Net Change in Fund Balances	(1,968,839)	(3,080,016)	(1,488,813)	(6,537,668)
Fund Balances - Beginning of year	23,219,952	68,593,465	6,313,957	98,127,374
Fund Balances - End of year	<u>\$ 21,251,113</u>	<u>\$ 65,513,449</u>	<u>\$ 4,825,144</u>	<u>\$ 91,589,706</u>

School District of the City of Battle Creek

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (6,537,668)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (1,488,325)	
Capitalized capital outlay	<u>9,468,633</u>	7,980,308

Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of the carrying value of the disposed assets (38,325)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 1,200,000

Underwriter's premium and cost insurance are reported as revenue and expenditures in the funds and amortized in the statement of activities 33,867

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (577,864)

Arbitrage liability is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid (847,117)

Compensated absences and estimated self-insured liability claims are recorded when earned in the statement of activities (75,601)

Change in Net Assets of Governmental Activities \$ 1,137,600

School District of the City of Battle Creek

Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2008

	Student Activities Agency Fund	Trust Fund	Total
Assets			
Cash and investments	\$ 228,986	\$ 3,163,431	\$ 3,392,417
Accounts receivable	2,586	1,488	4,074
Inventories	39,683	-	39,683
Total assets	<u>\$ 271,255</u>	<u>\$ 3,164,919</u>	<u>\$ 3,436,174</u>
Liabilities			
Accounts payable	\$ 49,915	\$ 8,233	\$ 58,148
Due to other funds	-	183,791	183,791
Due to student groups	221,340	-	221,340
Total liabilities	271,255	192,024	463,279
Net Assets	<u>-</u>	<u>2,972,895</u>	<u>2,972,895</u>
Total liabilities and net assets	<u>\$ 271,255</u>	<u>\$ 3,164,919</u>	<u>\$ 3,436,174</u>

School District of the City of Battle Creek

Fiduciary Fund **Statement of Changes in Fiduciary Net Assets** **Year Ended June 30, 2008**

	<u>Trust Fund</u>
Revenue	
Contributions	\$ 9,018
Investment gain	<u>100,047</u>
Total revenue	109,065
Expenses - Scholarships and other expenditures	<u>139,234</u>
Excess of Expenses Over Revenue	(30,169)
Net Assets - Beginning of year	<u>3,003,064</u>
Net Assets - End of year	<u><u>\$ 2,972,895</u></u>

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of the School District of the City of Battle Creek (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

School District of the City of Battle Creek

Notes to Financial Statements
June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

2007 Bond Building and Site Fund - This fund is a Capital Projects Fund used to record bond proceeds and related investment income, and the disbursement of funds specifically designated for capital improvement plans as approved by the voters. The fund will operate until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Calhoun Area Technology Center, Math and Science Center, Technology, Athletics, Food Service, and Operation Grad Funds. Any operating deficit generated by these activities is the responsibility of the General Fund. On July 1, 2007, the School District turned over the Calhoun Area Technology Center program and the related fund balance to the Calhoun Intermediate School District.

Debt Service Fund - The 2007 Bond and the Durant Debt Retirement Funds are the School District's only Debt Service Funds. They are used to record property taxes and state revenue, and the corresponding principal and interest payments for the 2007 and Durant bond issues.

Capital Projects Funds - Capital Projects Funds are used to account for resources specifically designated for the acquisition and construction of facilities and for major capital improvements to facilities. Activities related to the sinking fund millage are recorded in the Building and Site Fund.

Private-purpose Trust Fund - The Private-purpose Trust Fund is used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

Student Activities Agency Fund - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and investments with varying maturities. Investments are stated at fair value. Pooled investment income is generally allocated to each fund based on the average monthly balances of each respective fund.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 for approximately 50 percent of the taxes that are due August 20 and December 1 for the remainder of the property taxes which are due on February 14. The final collection date is February 28, after which delinquent real property taxes are added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds and related interest of the 2007 Bond Building and Site Fund require amounts to be set aside for construction. These amounts have been classified as restricted assets, and consist of cash and investments.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	5-50 years
Buses and other vehicles	7 years
Furniture and other equipment	5-20 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments at normal retirement age are included.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data - Comparative data is not included in the School District's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General, Special Revenue, and Capital Project Funds. All annual appropriations lapse at fiscal year end.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. The School District's Board of Education has authorized administration to make transfers of appropriations within or between functions in an amount not to exceed 5 percent of the amount of the appropriation from which the transfer is made. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The School District changed budgeted amounts during the year in response to state aid and other funding reductions.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The 2007 Bond Building and Site Fund includes capital project activities funded with bonds issued after May 1, 1994. For this Capital Projects Fund, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

The Building and Site Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority. The School also holds funds in trust for other parties which are invested in common stocks and other investments.

The School District has designated six banks and credit unions for the deposit of its funds.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$9,136,805 had \$8,545,503 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial credit risk. The following securities were uninsured and unregistered and held in the following manner:

Investment Type	Carrying Value	How held
U.S. agency notes	\$ 59,728,707	Held by counterparty
U.S. government bonds/notes	11,022,848	Held by counterparty
Commercial paper	3,913,395	Held by counterparty
Stocks	1,277,347	Held by counterparty
Corporate bonds/notes	784,754	Held by counterparty

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy restricts investment maturities to within five years of the date of purchase, except for commercial paper which can only be purchased with a 270-day maturity. In addition, no more than 25 percent of the School District's portfolio may be invested in investments with a maturity of greater than three years. However, some of the investments in the School District's portfolio have maturities greater than five years from the date of purchase. As of June 30, 2008, the School District holds approximately \$690,000 of investments that have a maturity greater than five years.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund	\$ 3,861,052	N/A	AAA _m	S&P
Bank investment pools - Municipal investment fund	379,000	N/A	Not Rated	N/A
Various common stocks	1,277,347	N/A	N/A	N/A
U.S. Treasury bonds/notes	11,022,848	386 days to maturity (weighted average)	N/A	N/A
U.S. agency bonds/notes	59,728,706	303 days to maturity (weighted average)	AAA	S&P
Commercial paper - International Lease Finance	250,000	7/1/08	A-1	S&P
Commercial paper - American Honda Finance	349,847	7/8/08	A-1	S&P
Commercial paper - Illinois Tool Works	299,881	7/8/08	A-1 +	S&P
Commercial paper - American Express	299,850	7/9/08	A-1	S&P
Commercial paper - Mitsubishi International	319,818	7/10/08	A-1	S&P
Commercial paper - Toyota Motor	299,756	7/14/08	A-1	S&P
Commercial paper - Bank of America	299,653	7/16/08	A-1 +	S&P
Commercial paper - National Rural Utilities	274,518	7/29/08	A-1	S&P
Commercial paper - JP Morgan Chase	324,239	8/5/08	A-1 +	S&P
Commercial paper - Prudential Funding	299,328	8/5/08	A-1 +	S&P
Commercial paper - Wells Fargo	299,196	8/11/08	A-1 +	S&P
Commercial paper - Paccar Financial	249,022	9/3/08	A-1 +	S&P
Commercial paper - GE Capital	348,289	9/10/08	A-1 +	S&P

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Maturities	Rating	Rating Organization
Corporate note - BankAmerica	\$ 20,221	2/15/09	A+	Fitch
Corporate note - Merrill Lynch	39,494	3/2/09	A+	Fitch
Corporate note - International Lease Finance	59,710	3/15/09	A	Fitch
Corporate note - Comcast	50,766	1/15/10	BBB+	Fitch
Corporate note - International Paper Company	48,407	4/1/10	BBB-	Fitch
Corporate note - Chase Manhattan	41,863	6/15/10	A+	Fitch
Corporate note - Home Depot	44,406	8/15/10	BBB+	Fitch
Corporate note - Verizon Global Funding	47,774	12/1/10	A+	Fitch
Corporate note - Goldman Sachs Group	67,476	1/15/11	AA-	Fitch
Corporate note - Kraft Foods	20,179	1/1/11	BBB	Fitch
Corporate note - Target	57,320	3/1/12	A	Fitch
Corporate note - AOL Time Warner	51,153	5/1/12	BBB	Fitch
Corporate note - General Electric Capital	56,836	6/15/12	AAA	Fitch
Corporate note - Boeing	61,194	2/15/13	A+	Fitch
Corporate note - Wyeth	45,364	2/1/14	A-	Fitch
Corporate note - Citigroup	27,646	5/7/15	A+	Fitch
Corporate note - Suntrust Bank	44,945	1/17/2017	A	Fitch
Total investments	<u>\$ 80,967,104</u>			

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in U.S. Treasury debt obligations, U.S. agency debt obligations, or SEC-registered money market funds. With the previous exception, the School District's investment policy states no one issuer or group of issuers from the same holding company is to exceed 5 percent of the market value of the portfolio at the time of purchase. The School District does not have more than 5 percent of its investments in any one issue, other than U.S. agency debt obligations, which comprise 74 percent of the School District's investments.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor in the aggregate, and Fiduciary Funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	2007 Bond	Nonmajor Funds	Subtotal - Governmental Funds	Fiduciary Funds	Total
Receivables:						
Taxes	\$ 23,805	\$ -	\$ -	\$ 23,805	\$ -	\$ 23,805
Accounts	437,166	-	426,625	863,791	4,074	867,865
Intergovernmental	<u>11,987,933</u>	<u>-</u>	<u>-</u>	<u>11,987,933</u>	<u>-</u>	<u>11,987,933</u>
Net receivables	<u>\$ 12,448,904</u>	<u>\$ -</u>	<u>\$ 426,625</u>	12,875,529	<u>\$ 4,074</u>	<u>\$ 12,879,603</u>
Fiduciary Funds - Due to other funds, classified as receivable in statement of net assets				<u>183,791</u>		
Total				<u>\$ 13,059,320</u>		

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant and categorical aid payment received prior to meeting all eligibility requirements	\$ -	\$ 1,271,477

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2007	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated:					
Construction in progress	\$ 107,786	\$ -	\$ 4,582,724	\$ -	\$ 4,690,510
Land	1,004,558	-	1,842,164	-	2,846,722
Subtotal	1,112,344	-	6,424,888	-	7,537,232
Capital assets being depreciated:					
Building and building improvements	27,333,035	-	1,123,938	(383,249)	28,073,724
Buses and other vehicles	4,835,021	-	1,233,768	(1,087,333)	4,981,456
Furniture and equipment	6,411,620	-	686,039	-	7,097,659
Subtotal	38,579,676	-	3,043,745	(1,470,582)	40,152,839
Accumulated depreciation:					
Building and building improvements	13,483,160	-	779,089	(344,924)	13,917,325
Buses and other vehicles	4,064,631	-	313,538	(1,087,333)	3,290,836
Furniture and equipment	3,922,740	-	395,698	-	4,318,438
Subtotal	21,470,531	-	1,488,325	(1,432,257)	21,526,599
Net capital assets being depreciated	17,109,145	-	1,555,420	(38,325)	18,626,240
Net governmental capital assets	<u>\$ 18,221,489</u>	<u>\$ -</u>	<u>\$ 7,980,308</u>	<u>\$ (38,325)</u>	<u>\$ 26,163,472</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

Instruction	\$ 863,712
Support services	299,399
Athletics	54,400
Food service	22,341
Community	248,473
Total governmental activities	<u>\$ 1,488,325</u>

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General	Nonmajor Governmental Funds	Fiduciary	
2007 Bond Building and Site	\$ 3,605	\$ -	\$ -	\$ 3,605
Nonmajor governmental funds	<u>3,284,020</u>	<u>14,637</u>	<u>183,791</u>	<u>3,482,448</u>
Total	<u>\$ 3,287,625</u>	<u>\$ 14,637</u>	<u>\$ 183,791</u>	<u>\$ 3,486,053</u>

Interfund balances shown above primarily represent the respective funds' share of cash and investments that are pooled in the General Fund.

Interfund transfers consist of the following:

Fund Transferring In	Fund Transferring Out		
	General Fund	Nonmajor Governmental Funds	Total
Interfund reimbursements - General Fund	\$ -	\$ 151,865	\$ 151,865
Operating transfers - Nonmajor governmental funds	<u>1,550,058</u>	<u>-</u>	<u>1,550,058</u>
Total	<u>\$ 1,550,058</u>	<u>\$ 151,865</u>	<u>\$ 1,701,923</u>

Operating transfers primarily represent subsidized operations in the Athletics and Technology Funds. Interfund reimbursements represent reimbursement of costs, including indirect costs, from one fund that were paid from another fund on its behalf.

Note 7 - Operating Leases

The building and real estate used by Willard Library are being leased from the School District for \$1 per year. The fair market value of this lease is not known.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 8 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds payable	\$ 68,714,275	\$ -	\$ 1,200,000	\$ 67,514,275	\$ 1,337,046
Unamortized premium	<u>1,016,001</u>	<u>-</u>	<u>33,867</u>	<u>982,134</u>	<u>33,867</u>
Total bonds payable	69,730,276	-	1,233,867	68,496,409	1,370,913
Other obligations	<u>3,032,078</u>	<u>1,362,250</u>	<u>439,532</u>	<u>3,954,796</u>	<u>387,686</u>
Total governmental activities	<u>\$ 72,762,354</u>	<u>\$ 1,362,250</u>	<u>\$ 1,673,399</u>	<u>\$ 72,451,205</u>	<u>\$ 1,758,599</u>

Annual debt service requirements to maturity for the above governmental bond obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 1,337,046	\$ 3,272,945	\$ 4,609,991
2010	1,754,220	3,308,586	5,062,806
2011	1,675,402	3,157,384	4,832,786
2012	1,442,554	3,089,223	4,531,777
2013	1,505,053	3,030,322	4,535,375
2014-2018	7,440,000	14,163,513	21,603,513
2019-2023	9,520,000	12,092,250	21,612,250
2024-2028	12,135,000	9,477,163	21,612,163
2029-2033	15,390,000	6,212,250	21,602,250
2034-2037	<u>15,315,000</u>	<u>1,960,500</u>	<u>17,275,500</u>
Total	<u>\$ 67,514,275</u>	<u>\$ 59,764,136</u>	<u>\$ 127,278,411</u>

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 8 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

\$2,462,491 1998 School Improvement Bond (Durant Non-Plaintiff) serial bonds due in annual installments of \$137,046 to \$399,220 through May 15, 2013; interest at 4.76%	\$ 1,009,275
\$67,705,000 2007 School Building and Site General Obligation Unlimited Tax Bonds due in annual installments of \$1,200,000 to \$4,110,000 through May 15, 2037; interest from 4% to 5.25%	<u>66,505,000</u>
Total bonded debt	<u>\$ 67,514,275</u>

Durant Non-Plaintiff Bond - Included in governmental activities bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources.

Other governmental activities long-term obligations include the following:

Employee-compensated absences	\$ 2,666,909
Arbitrage liability	847,117
Self-insurance - Workers' compensation reserves	375,157
Self-insurance - Maintenance health and dental	<u>65,613</u>
Total	<u>\$ 3,954,796</u>

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical benefits provided to most employees, and participates in the Middle Cities Risk Management Trust risk pool for claims relating to property and liability loss and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The School District is also self-funded for medical and dental benefits for a small number of employee groups.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 9 - Risk Management (Continued)

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The School District is partially uninsured for workers' compensation claims. Under the plan, the School District's maximum loss is limited to \$300,000 per occurrence. Losses in excess of this limitation are insured up to an aggregate annual limit of \$5,000,000 and a cumulative (per occurrence) limit of \$12,000,000. At June 30, 2008, the School District administration does not believe that the liability for claims incurred but not reported is material. Changes in the estimated liability for the past two fiscal years were as follows:

	2008	2007
Estimated liability - Beginning of year	\$ 322,073	\$ 530,980
Estimated claims incurred - Including changes in estimates	491,431	280,093
Claim payments	438,347	489,000
Estimated liability - End of year	<u>\$ 375,157</u>	<u>\$ 322,073</u>

The School District is also partially uninsured for medical and dental benefits for a small number of employee groups. Claims and estimated liability are not significant.

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

School District of the City of Battle Creek

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 11.19 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 10.17 percent for the period from October 1, 2007 through June 30, 2008. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's required and actual contributions to the plan for the years ended June 30, 2008, 2007, and 2006 were \$4,044,681, \$5,034,926, and \$4,996,220, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 6.55 percent for the period from October 1, 2007 through June 30, 2008. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2008, 2007, and 2006 were \$2,541,262, \$3,042,321, and \$3,473,095, respectively.

Required Supplemental Information

School District of the City of Battle Creek

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget (Continuation Resolution adopted 06/07)	Final Budget (adopted 06/08)	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 6,918,747	\$ 8,692,563	\$ 8,899,512	\$ 206,949
State sources	45,220,912	45,833,177	45,501,376	(331,801)
Federal sources	6,655,265	7,029,717	7,728,314	698,597
Interdistrict and other sources	5,199,116	4,892,691	3,869,838	(1,022,853)
Total revenue	63,994,040	66,448,148	65,999,040	(449,108)
Expenditures				
Current:				
Instruction:				
Basic programs	21,415,876	21,806,434	20,978,373	(828,061)
Added needs	6,443,807	6,877,114	6,751,946	(125,168)
Adult education	393,903	356,369	322,152	(34,217)
Employee benefits	12,109,080	12,060,004	11,586,928	(473,076)
Support services:				
Pupil	2,199,199	2,556,656	2,610,148	53,492
Instructional staff	3,430,045	2,772,796	2,505,653	(267,143)
General administration	539,695	590,957	495,095	(95,862)
School administration	2,725,977	2,716,891	2,744,661	27,770
Business services	794,391	828,947	773,612	(55,335)
Operations and maintenance	6,474,906	6,408,652	6,584,339	175,687
Transportation	2,498,842	2,525,450	2,231,838	(293,612)
Central office	1,342,883	1,580,297	1,428,790	(151,507)
Employee benefits	5,957,735	6,107,571	6,119,604	12,033
Community services	211,531	277,395	265,298	(12,097)
Intergovernmental transfers	3,035	1,293,900	1,290,199	(3,701)
Interfund reimbursement	(160,532)	(167,293)	(151,865)	15,428
Total expenditures	66,380,373	68,592,140	66,536,771	(2,055,369)
Other Financing Sources (Uses)				
Transfers out	(1,526,301)	(1,575,866)	(1,550,058)	(25,808)
Proceeds from sale of capital assets	-	118,950	118,950	-
Total other financing uses	(1,526,301)	(1,456,916)	(1,431,108)	(25,808)
Net Change in Fund Balance	(3,912,634)	(3,600,908)	(1,968,839)	1,632,069
Variance Projection	600,000	1,000,000	-	(1,000,000)
Net Change after Variance Projection	(3,312,634)	(2,600,908)	(1,968,839)	632,069
Fund Balance - July 1, 2007	23,219,952	23,219,952	23,219,952	-
Fund Balance - June 30, 2008	<u>\$ 19,907,318</u>	<u>\$ 20,619,044</u>	<u>\$ 21,251,113</u>	<u>\$ 632,069</u>

Other Supplemental Information

School District of the City of Battle Creek

	Special Revenue Funds				
	Calhoun Area Technology Center	Math and Science Center	Technology	Athletics	Food Service
Assets					
Cash and investments	\$ -	\$ 44	\$ -	\$ 17,834	\$ 4,495
Accounts receivable	-	376,631	6,721	743	28,767
Due from other funds	125,000	86,576	391,972	20,643	701,298
Inventories	-	804,308	-	-	28,849
Prepays	-	1,889	222,169	27,396	3,874
Total assets	<u>\$ 125,000</u>	<u>\$ 1,269,448</u>	<u>\$ 620,862</u>	<u>\$ 66,616</u>	<u>\$ 767,283</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ 40,748	\$ 13,231	\$ 1,612	\$ 72,551
Salaries and other accrued liabilities	-	154,738	-	14,827	15,051
Due to other funds	-	-	-	-	-
Deferred revenue	-	334,807	-	600	4,371
Total liabilities	-	530,293	13,231	17,039	91,973
Fund Balances					
Reserved:					
Inventories	-	804,308	-	-	24,478
Prepays	-	1,889	222,169	27,396	3,874
Debt service	-	-	-	-	-
Committed CATC funds	125,000	-	-	-	-
Capital projects	-	-	-	-	-
Unreserved - Undesignated, reported in Special Revenue Funds	-	(67,042)	385,462	22,181	646,958
Total fund balances	<u>125,000</u>	<u>739,155</u>	<u>607,631</u>	<u>49,577</u>	<u>675,310</u>
Total liabilities and fund balances	<u>\$ 125,000</u>	<u>\$ 1,269,448</u>	<u>\$ 620,862</u>	<u>\$ 66,616</u>	<u>\$ 767,283</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

Special Revenue Funds	Debt Service Fund		Capital Projects Funds	
Operation GRAD	Durant Debt Retirement	2007 Bond	Building and Site Fund	Total
\$ -	\$ -	\$ 372,224	\$ 443,965	\$ 838,562
1,550	-	2,430	9,783	426,625
768,874	-	-	1,388,085	3,482,448
-	-	-	-	833,157
-	-	-	-	255,328
\$ 770,424	\$ -	\$ 374,654	\$ 1,841,833	\$ 5,836,120
\$ 6,379	\$ -	\$ 2,237	\$ 88,377	\$ 225,135
123,833	-	-	-	308,449
-	-	14,637	-	14,637
122,977	-	-	-	462,755
253,189	-	16,874	88,377	1,010,976
-	-	-	-	828,786
-	-	-	-	255,328
-	-	357,780	-	357,780
-	-	-	-	125,000
-	-	-	1,753,456	1,753,456
517,235	-	-	-	1,504,794
517,235	-	357,780	1,753,456	4,825,144
\$ 770,424	\$ -	\$ 374,654	\$ 1,841,833	\$ 5,836,120

School District of the City of Battle Creek

	Special Revenue Funds				
	Calhoun Area				
	Technology Center	Math and Science Center	Technology	Athletics	Food Service
Revenue					
Local	\$ -	\$ 1,772,412	\$ 136,420	\$ 100,403	\$ 610,246
State	-	1,331,077	-	-	182,546
Federal	-	87,881	-	-	2,046,888
Total revenue	-	3,191,370	136,420	100,403	2,839,680
Expenditures					
Current:					
Instruction	-	1,019,893	-	-	-
Support services	88,714	2,026,247	867,454	-	-
Food services	-	-	-	-	2,834,579
Athletics	-	-	-	824,008	-
Debt service - Principal	-	-	-	-	-
Debt service - Interest	-	-	-	-	-
Capital outlay	-	-	90,039	24,902	154,711
Transfers to other districts	2,344,825	86,779	-	-	-
Interfund reimbursement	-	56,637	-	-	39,786
Total expenditures	2,433,539	3,189,556	957,493	848,910	3,029,076
Excess (Deficiency) of Revenue Over Expenditures	(2,433,539)	1,814	(821,073)	(748,507)	(189,396)
Other Financing Sources					
Transfers in	-	-	801,076	748,982	-
Proceeds from sale of capital assets	-	-	-	-	-
Total other financing sources	-	-	801,076	748,982	-
Net Change in Fund Balances	(2,433,539)	1,814	(19,997)	475	(189,396)
Fund Balances - Beginning of year	2,558,539	737,341	627,628	49,102	864,706
Fund Balances - End of year	<u>\$ 125,000</u>	<u>\$ 739,155</u>	<u>\$ 607,631</u>	<u>\$ 49,577</u>	<u>\$ 675,310</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008

Special Revenue Funds	Debt Service Fund		Capital Projects Funds	
Operation GRAD	Durant Debt Retirement	2007 Bond	Building and Site Fund	Total
\$ 21,146	\$ -	\$ 4,323,033	\$ 2,226,588	\$ 9,190,248
1,535,264	-	-	-	3,048,887
563	-	-	-	2,135,332
1,556,973	-	4,323,033	2,226,588	14,374,467
808,518	-	-	-	1,828,411
675,445	-	-	-	3,657,860
-	-	-	-	2,834,579
-	-	-	-	824,008
-	-	1,200,000	-	1,200,000
-	-	2,765,253	-	2,765,253
-	-	-	1,598,633	1,868,285
-	-	-	-	2,431,604
55,442	-	-	-	151,865
1,539,405	-	3,965,253	1,598,633	17,561,865
17,568	-	357,780	627,955	(3,187,398)
-	-	-	-	1,550,058
-	-	-	148,527	148,527
-	-	-	148,527	1,698,585
17,568	-	357,780	776,482	(1,488,813)
499,667	-	-	976,974	6,313,957
\$ 517,235	\$ -	\$ 357,780	\$ 1,753,456	\$ 4,825,144

School District of the City of Battle Creek

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2008

June 30	Durant Principal	2007 Bond Principal
2009	\$ 137,046	\$ 1,200,000
2010	399,220	1,355,000
2011	150,402	1,525,000
2012	157,554	1,285,000
2013	165,053	1,340,000
2014	-	1,365,000
2015	-	1,420,000
2016	-	1,475,000
2017	-	1,550,000
2018	-	1,630,000
2019	-	1,715,000
2020	-	1,805,000
2021	-	1,900,000
2022	-	2,000,000
2023	-	2,100,000
2024	-	2,200,000
2025	-	2,310,000
2026	-	2,425,000
2027	-	2,540,000
2028	-	2,660,000
2029	-	2,785,000
2030	-	2,925,000
2031	-	3,070,000
2032	-	3,225,000
2033	-	3,385,000
2034	-	3,555,000
2035	-	3,735,000
2036	-	3,915,000
2037	-	4,110,000
Total	\$ 1,009,275	\$ 66,505,000
Principal payments due	May 15	May 11
Interest payments due	May 15	May 1 and November 1
Interest rate	4.76%	4% to 5.25%
Original issue	\$ 2,462,491	\$ 67,705,000

School District of the City of Battle Creek

Report to the Board of Education

June 30, 2008

To the Board of Education
School District of the City of Battle Creek

We have recently completed our audit of the basic financial statements of School District of the City of Battle Creek (the "School District") for the year ended June 30, 2008. In addition to our audit report, we are providing the following results of the audit, summary of unrecorded possible adjustments, and informational items which impact the School District:

	Page
Results of the Audit	I-4
Summary of Unrecorded Possible Adjustments	5
Informational Items	6-10
State Aid Issues	
Recent Auditing Pronouncements	
Public Act 106 of 2007	
Michigan Business Tax changes Impacting Public Schools	
Recent IRS Changes to Deferred Compensation Rules	
403(b) Annuity Plans	

We are grateful for the opportunity to be of service to School District of the City of Battle Creek. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

November 11, 2008

Results of the Audit

November 11, 2008

To the Board of Education
School District of the City of Battle Creek

We have audited the financial statements of School District of the City of Battle Creek (the "School District") for the year ended June 30, 2008 and have issued our report thereon dated November 11, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 19, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the School District. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the School District's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated November 11, 2008 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

To the Board of Education
School District of the City of Battle Creek

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the School District, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required during our audit.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 17, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2008.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no particularly sensitive estimates identified.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. No such sensitive disclosures were noted.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated November 11, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the School District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the School District's auditors.

To the Board of Education
School District of the City of Battle Creek

In addition to the comments and recommendations in this letter, our observations and comments regarding the School District's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (single audit report), and we recommend that the matters we have noted there receive your careful consideration.

This information is intended solely for the use of the Board of Education and management of School District of the City of Battle Creek and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Thomas H Cole III". The signature is written in a cursive, flowing style.

Thomas H. Cole III, CPA
Partner

To the Board of Education
School District of the City of Battle Creek

Client: **School District of the City of Battle Creek**

Opinion **Aggregate Remaining Fund Information**

Y/E: **6/30/2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Income
KNOWN MISSTATEMENTS:									
AI	To adjust investments currently recorded at historical cost to FMV	\$ (69,918)					\$ (69,918)		\$ (69,918)
ESTIMATE ADJUSTMENTS:									
	None								
IMPLIED ADJUSTMENTS:									
	None								
Total		<u>\$(69,918)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(69,918)</u>	<u>\$ -</u>	<u>\$(69,918)</u>

Informational

School District of the City of Battle Creek

Informational

STATE AID ISSUES

2008/2009

For 2008/2009, the governor and legislature continued to work through the State's budget issues. Once again, schools were asked to establish budgets without knowing the level of funding to be provided by the State. In July 2008, a compromise was reached.

Foundation Allowance

The budget agreement provides for a \$112 increase (1.55 percent increase) in the School District's foundation allowance. As part of the agreement, the State continued with its sliding scale equity payment concept within the foundation formula, with the increase being \$56 - \$112 per pupil depending on the size of an individual school district's foundation allowance. The new basic foundation is \$8,489 and the lowest foundation allowance is now \$7,316.

Retirement Rate

The 2008/2009 retirement rate has been determined. The rate for the fiscal year beginning October 1, 2008 will be 16.54 percent.

Kindergarten Full-funding "Intent" Language

As part of the budget plan, the amendments to the State Aid Act include "intent language" to move toward a full-day kindergarten requirement. Essentially, the language provides that, beginning in fiscal year ending 2009-2010, half-day developmental kindergarten programs would be funded at 50 percent (current law fully funds those programs). In addition, kindergarten programs would be fully funded in fiscal year 2010-2011 if they operated for 60 percent of a day, and fully funded in fiscal year 2011-2012 if they operated for 70 percent of a day.

As the State's budget year moves forward, it will monitor the revenue intake with periodic revenue-estimating conferences. State law requires that the appropriations cannot exceed revenue estimates. As a result, it is possible there could be reductions to School District funding if the State is not able to generate the funding levels identified in the May 2008 revenue-estimating conference.

School District of the City of Battle Creek

Informational (Continued)

RECENT AUDITING PRONOUNCEMENTS

The standards initially effective for June 30, 2008 audits continue the process of redefining how the audit is to be conducted. These standards have changed much of what occurs during the audit process and what is provided to the Board of Education and others charged with governance.

STATEMENTS ON AUDITING STANDARDS 104 TO 111 - THE RISK ASSESSMENT STANDARDS -

The AICPA issued Statements on Auditing Standards (SAS 104 - SAS 111) that have substantially affected the auditing process. The effective date for all school district audits is for the audit of the financial statements for the year ended June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require the following:

- The auditor to obtain a deeper understanding of (1) the School District and its internal control, for the purpose of identifying the risks of material misstatement in the financial statements and (2) what the School District is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance with the requirements, which is tailored to the unique environment for Michigan schools. As a result, our 2008 audit process included many new features and elements. We worked with the School District to understand the elements, involved it in the information gathering process, and performed audit tests focused on the risks embedded in the School District's financial statements. We appreciate that change can be difficult and time consuming. Our goal was to ensure any changes made were done with a purpose and the changes focused on issues directly impacting your School District.

School District of the City of Battle Creek

Informational (Continued)

PUBLIC ACT 106 OF 2007

In October 2007, the State of Michigan enacted the Public Employees Health Benefit Act. This act was intended to promote greater opportunities for public school districts to control the escalating costs of health benefits provided to school district staff. The act provides for changes in three areas:

- Mandates solicitation of competitive bids for health insurance at least once every three years, or when a plan is enacted or substantially modified
- Mandates the release of individual district claims data by existing providers
- Allows for school districts to form and participate in health insurance pools

The act is not intended to replace a district's collective bargaining activities, but has created many more alternatives to the programs currently used in most districts. We encourage you to explore the cost-saving options now available. We would be happy to assist you in evaluating your best options to provide optimal health coverage for your staff at competitive prices.

MICHIGAN BUSINESS TAX CHANGES IMPACTING PUBLIC SCHOOLS

The State of Michigan has recently replaced the Michigan single business tax with the new Michigan business tax (MBT). Two provisions of the new MBT will impact K-12 funding.

The MBT expands the existing community foundation credit to include educational foundations. If your educational foundation meets certain specified criteria, business donors can receive an MBT credit equal to 50 percent of their contribution, limited to 5 percent of the donor's tax liability or \$5,000. This provision will provide tax incentives to businesses to support educational foundations and, as a result, could lead to enhanced funding to the School District.

The MBT also provides for personal property tax relief to businesses. Businesses will receive a 24 mill reduction on industrial personal property and a 12 mill reduction on commercial personal property. Most districts will experience a substantial reduction in personal property tax receipts. To offset this reduction, the MBT requires the State to make specific payments to the School Aid Fund. It remains uncertain exactly how these funding changes will impact individual districts, and the resulting cash flow may be delayed as the payments migrate to the 11 monthly state aid payments. We encourage you to closely monitor these changes and adjust your budgeting and cash flow plans accordingly.

School District of the City of Battle Creek

Informational (Continued)

RECENT IRS CHANGES TO DEFERRED COMPENSATION RULES

The IRS recently announced a change in position surrounding staff that chooses to be paid over a 12-month period rather than over the shorter school year. Under the change, the employee will not be considered to have a “deferred compensation” arrangement if:

- The payment of any recurring compensation is not deferred beyond the last day of the 13th month following the beginning of the school year
- The amount deferred from one taxable year to the next is not more than the general dollar deferral limit in effect under Code Section 402(g) (currently, \$15,500 in 2008) for the calendar year in which the school year begins
- Prior to this notice, the IRS had taken the position that if an employee elected to be paid over a 12-month period rather than over the shorter school year, the employee had deferred compensation. As a result, both the School District and the employee needed to comply with the requirements of Code Section 409A, which governed deferred compensation arrangements.

The result of this new notice will “eliminate the possibility of additional tax under 457(f) and 409 for most teachers and schools,” according to the IRS. Taxpayers can rely on Notice 2008-62 immediately, “beginning with the first taxable year that includes July 1, 2008.”

403(b) ANNUITY PLANS

The IRS has finalized regulations that will require schools to take more responsibility in the operation and compliance of their 403(b) arrangements, including operating the plans under a written document. The regulations have a delayed effective date of January 1, 2009. Districts will want to carefully balance the degree of involvement versus delegation as they implement a compliance strategy. It will be important to establish a district plan document and implement vendor agreements that establish the responsibilities of the School District and the vendor to eliminate confusion and provide a compliance road map. Watch for updates in *Plante & Moran's School Advisor* or in an *Alert* publication.

The IRS is currently reviewing 403(b) plans for compliance with the universal availability eligibility requirements. The universal availability rule generally requires that all employees have the right to make salary deferral contributions to the 403(b) plan, with few exceptions. Further, the final regulations reduce the number of exemptions from this requirement.

Effective in 2006, 403(b) arrangements can include a Roth contribution feature. Roth contributions are after-tax contributions that provide for tax-free withdrawals of contributions and earnings if certain requirements are met. The IRS has not yet issued comprehensive Roth 403(b) guidance, but once issued, it is likely that vendors will be proactive in using this feature to initiate a 403(b) marketing effort.